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# Climate Investment Solutions that Benefit Americans and the World's Most Vulnerable Populations

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I would like to thank the Chairman Faleomavaega of American Samoa, an island that is already experiencing the damaging effects of climate change on its valuable coral reefs. [1] I would also like to thank Ranking Member Manzulo and all the Members on this Subcommittee for recognizing the economic and national security implications of climate change, and for giving me the opportunity to comment on how the United States can make smart public investments today to combat these threats tomorrow and to continue growing the green jobs sector.

Investing in climate change solutions internationally will benefit both the American people and the world's most vulnerable populations. It will create jobs here at home, reduce global poverty and hunger, enhance our national security, lessen our global greenhouse gas emissions, and improve our moral standing in the world.

These targeted investments will transform young markets into tomorrow's booming markets creating American jobs and providing the needed outlet for the clean technologies and expertise we develop at home. Between now and 2050, it is predicted that 75% of the global energy increase will occur in developing countries. Thus, the developing world represents a potential market of $27 trillion over the next four decades – clearly a huge potential growth that would more than offset current economic issues within the United States.[2]

According to experts at the World Wildlife Fund, 850,000 new, permanent American jobs will be created if U.S. businesses capture 14% of the export market in just four clean energy technologies

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1 U.S. EPA. Climate Change and Interacting Stressors: Implications for Coral Reef Management in American Samoa (Final Report). U.S. Environmental Protection Agency, Washington, DC, EPA/600/R-07/069. <http://cfpub.epa.gov/ncea/cfm/recordisplay.cfm?deid=173312>

2 International Energy Agency, 2008. *Energy Technology Perspectives*. International Energy Agency, Paris.

(smart grid equipment, mass transit, wind turbines, and solar PV). In addition, investment in clean technology within developing countries created more U.S. jobs per $1 million investment than oil, natural gas, or coal industries. If the U.S. does not embrace the model of international investment for the good of our domestic industries, it cannot, and will not be victorious in the global clean energy race.

Furthermore, by investing in appropriate technologies and strategies to support developing countries to counter the disproportionately negative impacts from climate change on their vulnerable populations, the U.S. will not only help to reduce global poverty and secure our past development gains, but will also be protecting our national security. As mentioned in the Defense Department's Quadrennial Defense Review, and referenced in Chairman Faleomavaega's Resolution of last Thursday, "climate change will contribute to food and water scarcity, will increase the spread of disease, and may spur or exacerbate mass migration. While climate change alone does not cause conflict, it may act as an accelerant of instability or conflict, placing a burden to respond on civilian institutions and militaries around the world . . ." Furthermore, the assessment continues, "extreme weather events may lead to increased demands for defense support to civil authorities for humanitarian assistance or disaster response both within the United States and overseas." [3]

In short: we no longer have the luxury of doing nothing. As someone who worked as the third-ranking national security official in President Clinton's National Security Council, I agree fully with the national security concerns of inaction on climate change. The time for action is now. The security of the American people depends on it. Human burning of fossil fuels into the atmosphere is putting the planet and its people at risk. Unless we… and the world…change our energy policies, there is no doubt we will experience a rapid temperature rise, rising sea levels, greater storms, greater disruption, and greater conflict. Reliance on fossil fuels adversely affects our foreign policy as well. To meet its growing energy needs, China is investing heavily in the developing world – supporting corrupt and repressive regimes throughout Africa in its bid to secure long-term contracts. Venezuela's President is using his petro-dollar wealth to push anti-American policies in Latin America. Russia is playing hardball with its oil, reasserting government control, keeping investors out, and making a play for the ocean floor of the arctic seabed. And of course, our military presence in the Middle East is related to our dependence on oil from that unstable region. We need smart government and American leadership to change this dangerous course. I commend this subcommittee for holding a hearing on such an important and critical issue for our national security.

**The way ahead –invest in climate and energy solutions:** So what, specifically, can be done? There is a whole range of things we as a nation must do to confront the climate challenge. However, one clear, far-reaching, and American solution is: "invest." In order to prevent the economic and

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[3] U.S. House of Representatives. H. Res. 1552. "Supporting a legally binding global agreement to reduce greenhouse gas emissions and provide financial assistance to the poorest and most vulnerable nations for adaptation and mitigation measures, and for other purposes." 111th Congress, 2nd Session. http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:hr1552ih.txt.pdf

security costs of current and future climate stresses, and in order to ensure that the United States acts as a leader and standard-bearer for a new global energy economy, we need to make investments in climate mitigation and adaptation solutions right now. Lagging behind the rest of the world in supporting a new global energy infrastructure is unacceptable for a nation like ours – particularly when new solutions for jumpstarting our economy are needed more than ever. Significant investments today will also help reduce global dependence on fossil fuels (a dependence that, according to the Center for a New American Security, underpins a number of conflicts[4]), and jumpstart projects that will combat current and future threats emanating from more severe and frequent weather hazards, decreased agricultural production, increased water scarcity and insufficient food stocks. The economic and national security costs of the resource disputes and climate-induced migrations which may occur as a result of this climate instability will far outweigh the costs of investing in climate solutions today. [5]

**Public financing – providing necessary and predictable resources and incentivizing private investments:** Significant investments in international climate finance will not occur on the scale that is necessary without the support of public institutions – both domestic and international. [6] Public financing will play a critical role in underwriting climate adaptation at home and abroad, and will also help create a playing field that incentivizes and mobilizes private investments in North-South clean technology cooperation and reducing deforestation. Several legislative proposals, including the House passed American Clean Energy Security Act (ACES) H.R. 2454, set standards to ensure public investments are going to those countries that have the greatest need and can achieve the greatest reductions of global warming pollution. ACES included caps on allowances set aside for adaptation, clean technology cooperation and avoided deforestation. For example, no more than 10% of funds could go to any one country in any given year for adaptation purposes. Congress must include robust guidance for international investments to ensure that funds are used effectively to achieve the greatest mitigation of and resilience to climate change.

There is a wide array of feasible, innovative public financing sources being considered at the moment which the United States could and should implement, and which are clearly laid out in a recent U.S. Climate Action Network synthesis report; *"Investing in the Future: Options for Climate Finance the U.S. Can Support."* [7] The innovative sources that enjoy the broadest support include: 1) redirecting

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[4] Parthemore, Christine and Will Rogers. "Sustaining Security: How Natural Resources Influence National Security." Center for a New American Security. June 2010: p. 25.
<http://www.cnas.org/files/documents/publications/CNAS_Sustaining%20Security_Parthemore%20Rogers.pdf>

[5] Werz, Michael and Kari Manlove, "Climate Change on the Move: Climate Migration Will Affect the World's Security." Center for American Progress, December 2009.
<http://www.americanprogress.org/issues/2009/12/pdf/climatechangeonthemove.pdf

[6] UN Secretary-General's High-level Advisory Group on Climate Change Financing, "Report on the First Meeting." March 31, 2010: p. 1. <http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/LondonMeetingReport_31%20Mar%202010.pdf>

[7] U.S. Climate Action Network, "Investing in the Future: Options for Climate Finance the U.S. Can Support." May 2010.
<http://blog.usclimatenetwork.org/wp-content/uploads/2010/05/investing-in-the-future2.pdf>

fossil fuel subsidies, 2) international aviation and shipping mechanisms, 3) Special Drawing Rights, 4) a financial transaction tax, and 5) setting aside a dedicated portion of emissions allowances. These options are supported by a broad range of environmental, labor, business, faith-based and national security-oriented organizations across this country and internationally. Among other benefits, these financing options help reduce the amount of money the U.S. government would need to appropriate from Congress to meet the commitment President Obama and Secretary Clinton made in Copenhagen to raise $100 billion per year by 2020 for climate mitigation and adaptation. In a difficult fiscal environment, these are very attractive solutions.

**1. Redirecting Fossil Fuel Subsidies**: Building on the Obama Administration's leadership in advancing a G20 agreement to phase out fossil fuel subsidies, the United States has the opportunity to lead the international community in redirecting those subsidies towards clean energy, climate adaptation, and reducing deforestation. For years, fossil fuel subsidies have generated significant amounts of waste, drained national treasuries, and impeded the development of new markets in energy efficiency and renewables. In 2009, a report by the Environmental Law Institute found that shifting U.S. fossil fuel subsidies would generate at least $10 billion annually.[8]

Internationally, the U.S. sends an additional $4 billion in annual subsidies to fossil fuel interests around the globe from U.S. taxpayers via the U.S. Export-Import Bank, the Overseas Private Investment Corporation, the World Bank, and the regional development banks.[9] Furthermore, as expressed by World Bank Managers representing 90 countries in a letter to the U.S. Treasury Department regarding the financing of coal plants, the transfer of funds from fossil fuel subsidies to the development of clean technologies would serve to build trust between developed and developing countries and would be met with broad praise.[10] Finally, much of this finance will build global markets for American clean energy technology, thus supporting green jobs and the clean energy economy.

As mentioned previously, the Obama Administration has begun taking steps to phase out fossil fuel subsidies and has been a global leader in moving G20 nations toward that same goal. But it has not yet embraced the opportunity to move those revenues into financing adaptation and mitigation. In light of the tragedy in the Gulf Coast, this is a simple and politically powerful case of "stop funding the problem, and start investing in the solution." This is a proposal that the American public can enthusiastically support.

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8 Environmental Law Institute, "Estimating U.S. Government Subsidies to Energy Sources: 2002-2008." September 2009. www.elistore.org/Data/products/d19_07.pdf

9 International Institute for Sustainable Development, *The Global Subsidies Initiative*, "Defining Fossil-Fuel Subsidies for the G-20: Which Approach is Best?" March 2010. www.globalsubsidies.org/files/assets/pb5_defining.pdf

10 Almofadhi, Abdulrahman et al, Letter to Robert Zoellick, President of the World Bank. January 13, 2010. <http://www.bicusa.org/en/Article.11758.aspx>

**2. International Aviation and Shipping Mechanisms**: This proposal addresses emissions from the aviation and shipping sectors -- which have been neglected by international agreements -- and would raise revenue for climate finance through a variety of proposed mechanisms. During the past two years, support for this concept has grown among countries, businesses (including major airline interests) and civil society. Multiple approaches have been proposed, from a carbon levy or other levies on these fuels to sectoral cap-and-trade mechanisms that would set limits on pollution and require the purchase of allowances for emissions that exceed the cap. Under the latter approach, which has the broadest support, revenue from allowance purchases would be used for climate finance. Ultimately, this mechanism could contribute between $19 billion and $35 billion to climate financing by 2020. [11]

This proposal has broad appeal for a number of reasons, including that it would constitute a tiny cost compared to the overall cost of airline and shipping travel. Furthermore, the Congressional will exists. The American Clean Energy and Security Act (ACES or Waxman-Markey) approved by the House of Representatives in June 2009 included an upstream cap on all aviation and shipping fuels – including those used for international trips. An international mechanism therefore would not impose an additional burden on U.S. carriers, but would promote a level playing field that would bring other emissions from this sector under a similar emissions limit.

**3. Special Drawing Rights (SDR):** Special Drawing Rights (SDRs) are reserve assets that are created at no cost and issued by the International Monetary Fund (IMF) to member countries. Their value is based on a basket of four currencies - the U.S. dollar, the UK pound, the Euro, and the Japanese yen - and they are issued in proportion to IMF quotas, which are determined by each member country's relative weight in the global economy. Governments can use their SDRs to build reserves or exchange them for cash. [12]

There are various proposals for how SDRs can be used for climate finance. In December 2009, philanthropist George Soros proposed that developed countries lend $100 billion worth of the SDRs from a 2009 allocation to capitalize a Green Climate Fund. He suggested that the surplus value of the IMF's gold reserves could cover the interest payments on these SDRs.[13] In March 2010, an IMF staff paper suggests that IMF-issued Special Drawing Rights could also be used to collateralize a Green Fund or be converted into cash that would be used for climate purposes. [14] In the collateralization proposal, existing developed country SDRs are used to underwrite private funds raised through the issuance of bonds while still being considered reserve assets by the IMF. Finally,

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[11] U.S. Climate Action Network: p. 10. <http://blog.usclimatenetwork.org/wp-content/uploads/2010/05/investing-in-the-future2.pdf>

[12] European Climate Foundation, "Climate Finance: Using SDRs to finance climate change mitigation and adaptation." December 2009. <http://www.connectusfund.org/files/SDR%20Briefing%20paper.pdf>

[13] Soros, George. "Using SDRs to Fight Climate Change." Speech at Copenhagen climate conference, December 2009.

[14] Bredenkamp, Hugh and Catherine Pattillo. "Financing the Response to Climate Change." International Monetary Fund Staff Position Note. March 25, 2010. <http://www.imf.org/external/pubs/ft/spn/2010/spn1006.pdf>

civil society has built on these proposals, suggesting new and regular allocations of SDRs that would be converted to hard currency and used for climate finance.[15] In the cash conversion proposal, the interest fee for converting from Special Drawing Rights to cash would be covered by the developed countries.

Among other benefits, the use of SDRs for climate finance would provide a simple and predictable framework which could help break the logjam in international climate negotiations, and get the U.S. closer to its Copenhagen commitment. As with the other the financing options detailed here, SDRs are an untapped resource whose use for climate financing would constitute no additional burden on a struggling American public. Put simply, these are dormant resources. In a situation of climate and economic stability, there is no excuse for keeping them out of the hands of people who need it.

**4. Financial Transaction Tax (FTT):** This proposal would entail a very small levy on international financial transactions such as currency exchanges, stock trades, and bond trades. It would take advantage of current sentiments in favor of regulating the financial sector, manifested most recently in the House and Senate's passage of comprehensive financial reform, as well as broad-based public campaigns for an FTT in several countries. This approach could be agreed to multilaterally and would be passed unilaterally by national legislatures. Ultimately, this would take the form of a set of coordinated domestic taxes, and not a global tax imposed by an international regulatory body, international financial institution, or international agency. Most importantly, an FTT could help us meet our finance commitments, while simultaneously providing funding for consumer rebates and green jobs. The Center for Economic and Policy Research estimates that a varied FTT (0.5% on stock trades; 0.01% on bond trades; 0.01% on swaps) would raise more than $175 billion a year in the U.S. alone, even with a 50 percent reduction in trading volume. [16] The North-South Institute estimates that a levy of 0.005% on only currency transactions in dealer markets would yield approximately $33 billion annually, assuming a 14.5 percent drop in trading. Of that total, $28 billion would be raised in the U.S. [17] Globally, an average tax of 0.05% on all financial transactions would generate an estimated $400 billion per year. Many international advocates for an FTT have proposed that revenues be split equally between domestic and international needs, with the international portion divided equally between climate and global health programs. Under this scheme, an FTT could generate the $100 billion per year in finance that governments have committed to spending to support developing country adaptation and mitigation. In an economy hampered by excessive speculation in currencies, this option represents an economically and politically sound solution.

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[15] See ActionAid factsheet: "What Are Special Drawing Rights and How Can They Be Used to Finance Climate Adaptation and Mitigation." <http://actionaidusa.org/assets/pdfs/climate_change/SDRFactsheet.pdf>

[16] Baker, Dean, et al., "The Potential Revenue from Financial Transactions Taxes." Center for Economic and Policy Research and the Political Economy Research Institute, Issue Brief. December 2009. <www.cepr.net/documents/publications/ftt-revenue-2009-12.pdf>

[17] Schmidt, Rodney, "The Currency Transaction Tax: Rate and Revenue Estimates." The North-South Institute, October 2007. See Abstract, also pp. 4-9. <www.nsi-ins.ca/english/research/completed /03.asp>

While some consider this a politically difficult option, a strong American constituency that extends far beyond the environmental community supports this solution. A key anchor of U.S. civil society support for the FTT is Americans for Financial Reform, a coalition of more than 200 national, state, and local groups working to reform the financial industry in part through a financial transaction tax. Members of the coalition include consumer, labor, civil rights, investor, retiree, community, religious, and business groups as well as Nobel Prize winning economists.

This broad constituency has enhanced support for this financing option. As you may know, a piece of legislation calling for a currency transaction levy for climate finance and global health was introduced into the House last week by Representative Stark (D-CA). The "Investing in our Future Act of 2010," HR 5783 would place a 0.005% levy on all foreign currency exchange transactions – including derivatives – by large-scale investors in the U.S. who trade more than $10,000 in currencies per year. HR 5783 directs the revenues from this levy – likely billions of dollars – to international climate adaptation and mitigation funds under the United Nations Framework Convention on Climate Change, in addition to funds to address the global health crisis and child care assistance in the United States.

**5. Setting Aside a Dedicated Portion of Emissions Allowances:** Lastly, emissions trading systems, whether at the national or the international level, offer an important avenue for generating climate finance that is connected directly to the source of emissions and therefore the cause of climate change. Using the proceeds from a pollution permit program to support achieving additional, cost-effective reductions and responding to climate change in developing countries makes sense as both a policy and political matter. Under this concept, money would be raised by setting aside a small portion of emissions allowances and using the revenue from the sale of the allowances for international climate finance. This could be implemented either under a global system (such as the Kyoto-style country-based trading mechanism) or through an agreement to raise these funds domestically. Under the latter approach, countries would commit to setting aside a portion of the allowances under their domestic emissions trading system (like the one included in the Waxman-Markey legislation) or to allocating a dedicated portion of revenues from domestic fees or taxes on greenhouse gas emissions for these purposes.

**Conclusion:** In conclusion, a full range of sources for public investments in climate adaptation, clean energy cooperation with the developing world, and reduced deforestation are needed in order to meet and hopefully exceed U.S. finance commitments made at Copenhagen and to bring the U.S. closer to resolving a crisis which could claim the lives of many and seriously upset our security as Americans. Making investments now in order to avoid paying significant costs, both financial and human, in the future, is a prudent and responsible position to take in this time of economic and financial crisis.

We have done it before, and we can do it again. Large-scale and forward-thinking public infrastructure projects played a significant role in the recovery of the U.S. and global economy after the Great Depression. Similar, although more modest investments, in climate and energy solutions today can also act as an engine of recovery and prosperity in a lagging economic environment.

Furthermore, the costs associated with the kinds of security threats that could result from further climate stresses will far outweigh the cost of reducing our emissions and investing in climate solutions today. Public financing mechanisms like the ones detailed in this proposal can lay the groundwork for U.S. fulfillment of its climate and energy mission, its job creation agenda, its commitment to achieve the Millennium Development Goals and reduce global poverty, its national security responsibilities, and its role in the world as a responsible, moral and forward-thinking nation.

Once again, let me commend the Subcommittee for taking on this important issue. It is high time for the American public and our government to recognize the urgency of this national security challenge.

Thank you.